Our water . . . Our future

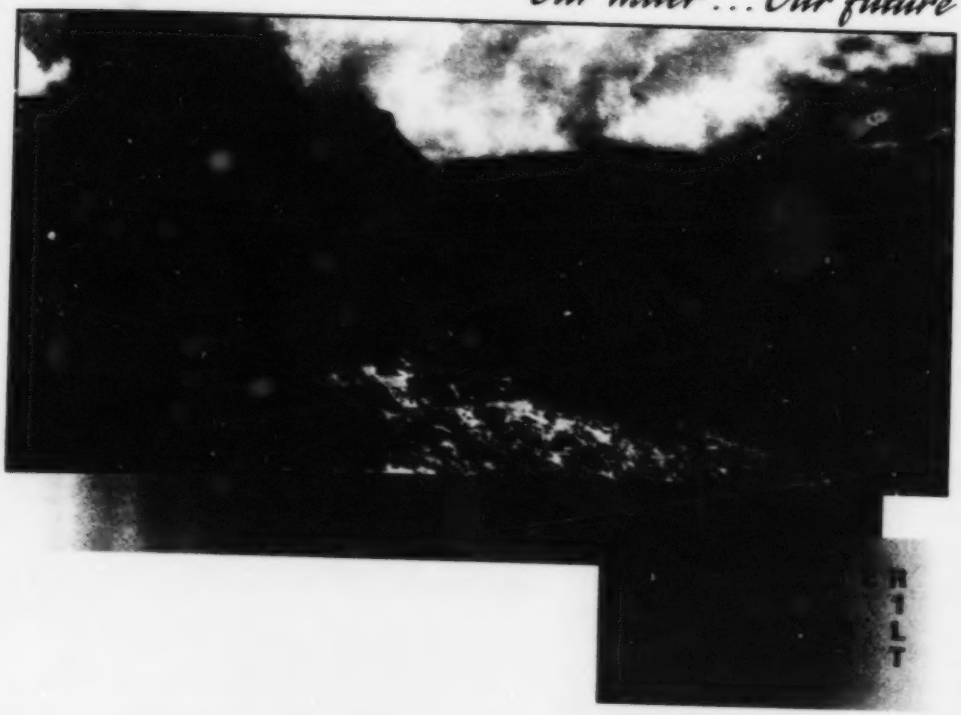

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TABLE OF CONTENTS

2 Letter of Transmittal

3-5 Board of Directors/Advisory Boards/Officers

6 Minister's/Chairman's Remarks

7-8 President's Remarks

9-19 Corporate Highlights

20-21 Management's Financial Reporting/Auditors' Report

22-34 Financial Statements and Notes

35-36 Sask Water An Overview

LETTER OF TRANSMITTAL

Regina, Saskatchewan
March 30, 1992
To Her Honour
The Honourable Sylvia Fedoruk
Lieutenant Governor of the
Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Saskatchewan Water Corporation (Sask Water) for the year ended December 31, 1991, including the financial statements in the form approved by the Treasury Board and audited by Peat Marwick Thorne, all in accordance with **The Water Corporation Act**.

I have the honour to be, Madam,
Your obedient servant,

Darrel Cunningham
Minister Responsible
Chairman, Board of Directors

DIRECTORS/ADVISORY BOARDS/OFFICERS

THE FOLLOWING SERVED AS DIRECTORS OF SASK WATER DURING 1991:

Jack Piercy - Chairman, Rosetown
Honourable Harold Martens, Vice-Chairman
Bruce Campbell, Regina
Doug Cole, Moose Jaw
Joseph Kurjata, St. Walburg
Cecilia Mulhern, Meyronne
L.W. Bud Van Meter, Carrot River

Board of Directors at year end, December 31, 1991:

Honourable Darrel Cunningham, Minister Responsible, Chairman
Honourable Berny Wiens - Vice-Chairman
Honourable Ed Tchorzewski
Honourable Carol Teichrob

THE FOLLOWING SERVED ON WATERSHED ADVISORY BOARDS:

Northeast Region

Edwin Bedard, St. Brieux
Louise Einarson, Fosston
Lorne Kotko, Hudson Bay

Terms Expired in 1991

Buck Borsa, Carrot River (December 31, 1991)
Harry Evans, Hagen (December 31, 1991)
Maureen McGirr, Nipawin (December 31, 1991)
Dale Northcott, Melfort (June 30, 1991)
Jack Ukrainetz, Hudson Bay (June 30, 1991)
Joe Zagrodney, Wadena (June 30, 1991)

Northwest Region

Ron Ferster, Shellbrook
Nick Gabruch, Battleford
Jim McKnight, Prince Albert
John Soloninko, North Battleford
Clarence Williams, Borden

Terms Expired in 1991

Ab Bridges, North Battleford (June 30, 1991)
William Larsen, Borden (June 30, 1991)
Ian Lauder, Shellbrook (June 30, 1991)
Leonard Trask, Paradise Hill (December 31, 1991)

East Central Region

Peter Guillaume, Marquis
Steve Hort, Canora
Carol Hudye, Norquay
Julie Kuhar, Punnichy
Jim Luthi, Punnichy
Brian Tiefenbach, Edenwold

Terms Expired in 1991

John Bahnuik, Canora (June 30, 1991)
Des Peeke, Semans (June 30, 1991)

West Central Region

Harold Cole, Rosetown
Samuel Enns, Dalmeny
Larry Hundeby, Elbow

Terms Expired in 1991

Kelvin Bagshaw, Birsay (December 31, 1991)
Roberta Crossman, Rosetown (December 31, 1991)
Doug Ector, Elbow (June 30, 1991)
Jon Gillies, Saskatoon (June 30, 1991)
Lorne Jeffries, Smiley (December 31, 1991)

Southeast Region

Keith Harde, Estevan
Marlene Haygarth, Alameda
Al Jaenen, Fairlight
Carl Pilkey, Assiniboia
Glenn Seeman, Lampman
Ron Wilke, Yellow Grass

Terms Expired in 1991

Robert Brady, Carlyle (May 8, 1991)
Lorne Kramer, Midale (June 30, 1991)
John Moffatt, Moosomin (June 30, 1991)
Tom Quigley, Yellow Grass (June 30, 1991)

Southwest Region

Don Arendt, Eastend
Jim Finlay, Vanguard
Pat Hayes, Val Marie
Al Jahnke, Herbert
Reg Parsons, Swift Current

Terms Expired in 1991

Derald Busse, Swift Current (June 30, 1991)
Peggy Sanderson, Maple Creek (December 31, 1991)

THE FOLLOWING SERVED AS OFFICERS OF SASK WATER IN 1991:

Brian Woodcock, President
David MacLeod, Senior Vice-President, Water Management Division (retired October 31, 1991)
Mary Anne Davidson, Vice-President, Corporate Affairs Division
Wayne Dybvig, Acting Vice-President, Water Management Division
Wayne Phillips, Vice-President, Finance and Administration Division
Al Veroba, Vice-President, Operations Division

MINISTER'S AND CHAIRMAN'S REMARKS

As the Minister Responsible I look forward to helping Sask Water achieve its mandate and water management goals. This will be done in keeping with a strong commitment to safeguard our water resources, minimize costs and maximize social, environmental and economic benefits.

Water is an extremely important resource throughout the world and especially so in a province like ours with large, semi-arid regions. Over the years water has helped sustain agriculture and the rural and urban centres which depend on the agricultural industry. Reliable, adequate water supplies delivered through efficient, cost-effective systems is critical to our quality of life. Water is also key in helping stabilize and diversify the economy and to help new businesses and industries grow and expand.

But most importantly, water is one of the key elements in the survival and health of our planet and all life which inhabits it. As a result, we must do all we can to protect both the quality and quantity of our water supplies so we can continue to enjoy the benefits water brings. That is a challenge and responsibility for all of us. I look forward to undertaking it in consultation with the people of Saskatchewan.

Darrel Cunningham
Minister Responsible/
Chairman, Board of Directors, Sask Water

PRESIDENT'S REMARKS

The year 1991 resulted in major progress in several strategic areas including water supply utility development and corporate planning and structure. I am pleased to provide further comments on the corporation's accomplishments.

The 1990 strategic planning process identified a mission and goals for the future of Sask Water. In 1991 we continued to build on the original statement and accompanying goals. Employees identified and priorized key activities necessary to help achieve these goals which in turn formed the basis of employee work plans.

A major initiative for 1991 was to enhance people's awareness of the value of water. In Saskatchewan we have seen a gradual change in attitudes towards water with the droughts of the 1980's. Many people have learned first hand how the lack of water dramatically affects our personal lives and our economy. Sask Water is making progress towards changing the paradigms that water is plentiful, water is cheap and that the high quality we need is available in abundant supply. From an economic perspective, water is of the most value to us in terms of the value it adds to other products: in terms of what it allows us to grow, process and manufacture. In 1992 the corporation will continue this strong message and work towards the use of water as a means to maintain and diversify our economy, to make our economy stronger and less susceptible to outside market forces.

During the strategic planning process our employees also identified the need to achieve employee excellence in water management. A major step in reaching this goal is in the training and development of our staff. A comprehensive skills analysis and needs assessment was completed by Corporate Affairs. This analysis is providing the corporation with the information necessary to help develop long-term plans aimed at ensuring employees receive specific training needed to attain corporate goals.

Going hand in hand with strategic planning in 1991 was a corporate reorganization. This reorganization has aligned our corporation strategically to focus on the key water management activities and maximize the skills of our employees.

As a result of the heavy rainfall in the late spring and early summer of 1991, we ended 1991 with adequate water supplies for most municipal and rural water supply needs. This improvement in water supply conditions is most welcome since it means that Sask Water's resources can focus on addressing medium and long-term needs rather than dealing with the emergencies of short-term water shortages.

In 1991 Sask Water's senior statesman of water management, Dave MacLeod, retired. Dave was recognized provincially, nationally and internationally for his knowledge of water management. Sask Water wishes Dave and Barb a fulfiling retirement.

On behalf of the senior management and staff at Sask Water, I thank all those individuals and groups who either served the corporation directly or worked with us closely. We at Sask Water look forward to continuing these relationships and working with our new minister and board members to ensure the most effective use of our water resources. Our water is truly our future!

Brian F. Woodcock
President

During 1991 our employees worked within and between their divisions and with others on a wide variety of activities. The following provides an overview of our strategic goals and accomplishments that allowed Sask Water to fulfil its mission: "To manage, administer, develop, control and protect the water and related land resources of Saskatchewan."

MANAGING WATER RESOURCES FOR ENVIRONMENTAL, SOCIAL AND ECONOMIC BENEFITS

Sask Water was involved with many activities in 1991 to help clients and the province achieve environmental, social and economic water management goals. These activities included such work as providing regulatory functions, technical aid and financial assistance. Other activities were more complex. These involved detailed hydrology studies, water supply monitoring and forecasting, and project specific water supply and management studies. They also included major river basin plans with short and long-term water management strategies.

For example, staff completed a major groundwater aquifer study with the City of Regina. As the city relies on groundwater for approximately 25% of its water supply needs, a thorough groundwater analysis was necessary for Regina to plan for future expansion and industrial activity. The study had three main objectives: identification of the available groundwater resource; identification of the demands for the resource; and establishment of guidelines for allocating the resource to achieve maximum sustainable social and economic benefits. The analysis helped Sask Water and Regina address how Regina can best use and protect the available groundwater resources in a safe, sustainable way and how it can safeguard water quality.

Groundwater has been crucial to development in this province as nearly 400 municipal systems depend on groundwater as a source of supply. It is also used as a source for some major industrial purposes.

To ensure that the long-term sustainable yield will be maintained and that the quality is protected, a similar study was started in northeast Saskatchewan for the Yorkton aquifer and in the southeast the Southeast Aquifer Management Project was initiated. From these studies is derived the information necessary to make sound water management and development decisions.

While staff spent considerable time dealing with groundwater issues, surface water also presented special challenges. For example, in partnership with the

Wascana Centre Authority and the City of Regina, the Wascana Lake Management Study was completed. Wascana Lake relies on runoff for its water supply and from time to time users experience water shortages. The Wascana Lake Study addressed both quality and quantity problems. It will help Sask Water, Regina and the Wascana Centre Authority to manage the limited water resources so that Wascana Lake meets the needs of its users.

In 1991 staff worked on a variety of agriculturally related projects ranging from irrigation water supply, to multi-purpose water supply, industrial supply to flood and drainage control. Several of these projects are located in the major irrigation district near Lake Diefenbaker.

Both head office and regional staff worked closely with the South Saskatchewan Irrigation District on an ongoing rehabilitation project. During 1991 this group cleaned and shaped nearly 6 kilometres of canal and lined 2 kilometres with plastic to help conserve water and protect adjacent lands.

Sask Water staff also continued its work to ensure farmers and other producers make the best advantage of water supplies. Staff from agronomic services worked on numerous soil and water investigations. This work included helping landowners protect soil and crops from damage caused by improper irrigation scheduling and soil salinity problems.

With employees of the Saskatchewan Irrigation Development Centre (SIDC) at Outlook, a joint initiative of Sask Water and Agriculture Canada - PFRA was undertaken. Work undertaken at SIDC included helping individual farmers and independent researchers develop new irrigation crops and techniques. This work helps ensure the most effective and efficient use of water in the diversification of the province. It also helps producers develop new crops and varieties, specific to irrigation, to deal with changing world market conditions.

While addressing a lack of water supply or improving water supplies is often a major activity for Sask Water staff, so is working with the problems of excess water.

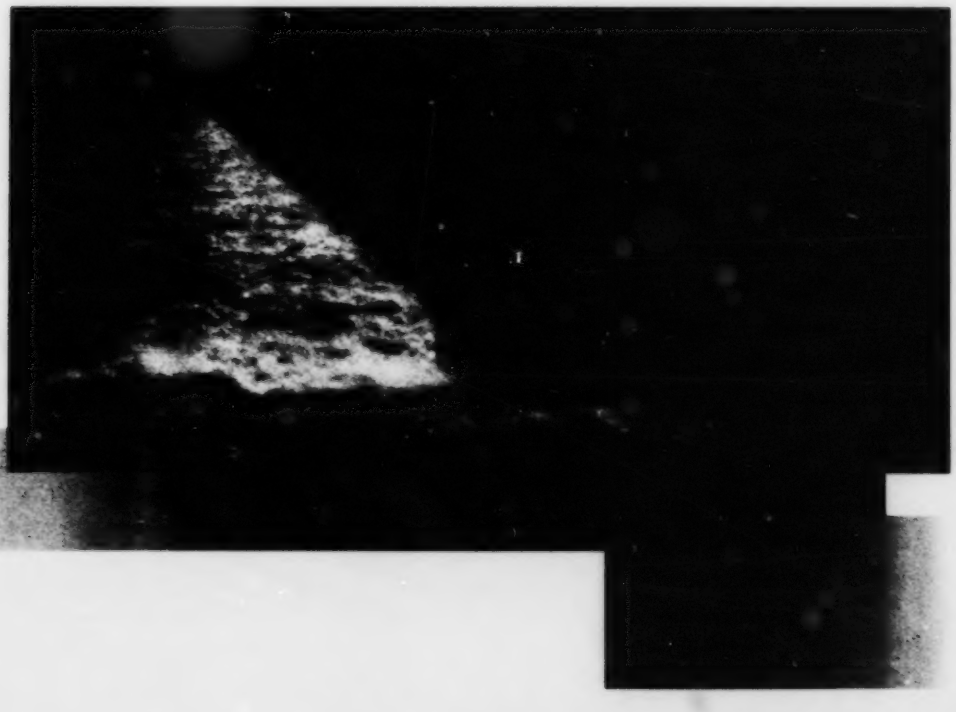
Although drainage is still one of the preferred and in most cases the least expensive method of flood control, water conservation is also an important consideration. An important initiative stated in Sask Water's mandate is to promote integrated water management. Integrated water management includes multi-use projects where staff bring clients together to ensure the best use of one water resource may be developed for domestic, agricultural, industrial, recreational, water power or effluent disposal use. This fact is apparent in the Fosston Flood Control Project Sask Water is working on with local water users in northeast Saskatchewan.

A large project, Fosston Lake is located in a 190 km² drainage basin. The project addresses local concerns dating back to 1915. What is unique and very beneficial about the solution being constructed today is its multi-purpose nature. First, the project will provide flood control and drainage to a large, well developed agricultural area. Second, it also involves improvements to existing Ducks Unlimited managed waterfowl areas. These improvements will help stabilize and control water levels in two related wetland areas, Fosston and Anderson marshes. While Sask Water is working with the farmers and watershed associations on their agricultural concerns, Ducks Unlimited is working alongside to make alternate use of drained water.

Each year presents its special water management challenges and 1991 was certainly no exception. In 1991 it was an over-abundance of water in many areas that created the most activity. While the flooding did result in some agricultural damage, it was, for the most part, a most welcome and needed change from drought conditions which dominated the 1980's.

Spring and summer precipitation were well above normal over southern and central areas of the grain belt. The major centres of Regina, Saskatoon, Moose Jaw and Swift Current recorded their highest level of spring precipitation ever between April 1 and June 30.

In addition, heavy rainfall in late June resulted in additional runoff in most southern areas of the province. Runoff was heaviest in the Rush Lake, Herbert,



Hodgeville, Vanguard and Val Marie areas in the southwest. These areas experienced extensive agricultural flooding.

Relatively high summer flows recorded on the Moose Jaw River and the lower Wascana Creek Basins contributed to high flows in the Qu'Appelle River. As a result, there was minor flooding on the flood plain in the Craven area and downstream. Staff undertook several structure operations to limit the impact of the high flows. These operations also helped the system handle water in a near normal fashion.

High water levels in the Qu'Appelle River also provided some very anxious moments for organizers of the Craven Jamboree, an outdoor country music extravaganza. Sask Water responded to an urgent need for pumping equipment and staff attended on site to help organizers deal with water problems. They also kept organizers up-to-date on flow levels to ensure the safety of spectators. Sask Water was pleased to help organizers overcome these water management challenges. As a result concert goers had an enjoyable, albeit at times a damp, event.

Rainfall also benefitted water supplies in the southeast, especially in the Moose Mountain Creek, upper Souris River and Long Creek Basins.

Runoff from these rainfalls improved water supply conditions throughout most of the province. Smaller dugouts and reservoirs especially benefitted from the runoff and in many areas dramatic improvements were noted in shallow groundwater supplies.

Heavy rains and snow pack in Alberta also affected the operation of Lake Diefenbaker. Before the higher than normal runoff, the reservoir was drawn down below its median elevation for mid-March. Although cooler weather delayed the spring runoff event, the reservoir did reach its full supply level by mid-July. Heavy rains in the Outlook area during the spring and summer also lessened water use requirements from Lake Diefenbaker. Normally the downstream releases are passed through the hydroelectric turbines, in 1991 operations required the spillage of a limited amount of water downstream of Lake Diefenbaker to avoid exceeding its full supply level.

Interjurisdictional water management is also an important water supply consideration in Saskatchewan. The droughts in 1989 and 1990 put southeast Saskatchewan in a unique position in 1991 . For the first time since the water sharing agreement with Saskatchewan, Manitoba and North Dakota was finalized in 1959, we were unable to fulfil our total water sharing requirements. As a result, special arrangements were made to avoid jeopardizing critical water supplies for municipal, agricultural and industrial use in the province. With the

improvement of water conditions in early 1991, additional releases were made from storage in the Souris River Basin to help meet the apportionment requirements for the 1990 shortfall.

These actions, taken to manage and protect the limited water resources in the southeast, were made possible with good communication and cooperation with the state of North Dakota and affected water users in this region of Saskatchewan.

Saskatchewan ended 1991 with generally good to excellent local ground and surface water conditions. The major exceptions are isolated areas in the southwest, northwest and northeast which still need above normal precipitation to recover to previous normal levels.

Water affects every part of our lives, including the environment in which we live. Poor water quality and inadequate quality creates a difficult climate in which to live and prosper. However, water in sufficient quantity and good quality creates a healthy climate with excellent opportunities for all water users and water uses.

ENSURING A RELIABLE AND ADEQUATE WATER SUPPLY OF ACCEPTABLE QUALITY

Every water user, whether it is people, livestock, wildlife, or waterfowl, has two basic requirements for their water supply. First, they must have a supply adequate to meet their basic needs. Second, the water must be of the proper quality for the use intended, whether that be for drinking, washing, industry, recreation or wildlife. In some cases users have very few if any options. For example, adequate supplies may be too distant, too expensive to develop or they may simply not exist. However, that is the exception rather than the rule. Sask Water staff are committed to help water users overcome constraints standing in the way of obtaining good, quality water.

In some cases, Sask Water upgraded existing systems in 1991 to meet these needs. For example, improvements made by the Water Utility Branch to the Saskatoon East Raw Water Line meant a water supply for a new championship golf course near Saskatoon. It also meant improved service to industrial and domestic clients. The improvements also made the system more efficient thereby improving water conservation. Similar improvements were also made for the system serving the resort village of Thode.

In other cases it meant the addition of new customers who now receive water in the quality and quantity needed. This was true for the Village of Elstow. It now joins a long list of Sask Water customers benefitting from pressurized pipeline delivery systems.

And in the case of the City of Melfort it means an agreement with Sask Water to develop a new regional supply system and upgraded treatment plant. In addition to meeting the needs of Melfort, the project will serve smaller communities in the area and enable individual farmers to hook onto the water supply as well. These Sask Water projects will mean an end to difficulties with both water quality and water quantity for nearly 10,000 residents in Melfort and area.

In 1991 Sask Water added a major new industrial/agricultural client to its utility customers. The Water Utility staff worked with the Engineering Branch and regional staff to build a pump station and pipeline to supply both raw and treated water to a major fertilizer plant, Saskferco, under construction near Moose Jaw.

Staff also continued to expand the benefits of the Riverhurst pressurized pipeline irrigation project. Work on this multi-purpose project in 1991 included developing water supply for the Ducks Unlimited Thunder Creek Project. This project will supply water for over 9,600 hectares of waterfowl habitat and approximately 810 hectares of irrigation.

Projects like these help improve quality of life and lead to other social, environmental and economic benefits. That is the power of water. Those are the benefits of an adequate water supply in the quality needed.

Sask Water has also formed new partnerships with other government agencies and departments to improve service for clients and to help identify emerging issues. For example, our water quality technician in Outlook works closely with Rural Service Centres in his area to address on-farm water quality concerns and problems.

Our regional and head office staff work closely with the Saskatchewan Agriculture and Food on the Canada/Saskatchewan Save Our Soils Program. Under this program Sask Water provides engineering assistance for erosion control problems aimed at protecting water quality and preventing serious soil damage.

Providing clients with abundant, good quality water is a high priority with Sask Water as is working with them to ensure its most effective and efficient use.

TO ACHIEVE EMPLOYEE EXCELLENCE IN WATER MANAGEMENT

During Sask Water's strategic planning process, staff identified a goal to achieve employee excellence in water management. Staff and management alike recognize that employee excellence translates directly into improved, effective and efficient water management.

Upon reviewing this goal, management, in consultation with staff, identified the need to develop new ways for Sask Water to do business both internally and externally. This meant a review and reorganization of our corporate structure and ways of developing work plans. It also involved an improved alignment of staff skills with division goals.

Since our staff is our greatest asset, Sask Water placed added emphasis on human resources in 1991 with the formation of the Corporate Affairs Division. This division combined personnel and public affairs/communications under one vice-president.

An important activity for Corporate Affairs in 1991 was a comprehensive inventory of employee skills. This review was done to ensure staff skills were best aligned with corporate and division goals. This process also served the important function of providing a needs analysis for staff training and development, activities critical for future success.

Other reorganization activities also occurred to help Sask Water best meet its goals and maximize staff skills.

A new branch, Program Development, consolidated activities which previously operated in various units of the corporation. The Program Development Branch focus includes developing projects which reflect the principles of integrated water management, environmental protection, agricultural and rural sustainability and wildlife enhancement.

This branch has two key roles. The first is to review existing programs. This review helps to determine if programs are being delivered effectively and that they meet corporate and client needs. The second is to establish new programs to help meet the approved goals of the corporation.

This proactive approach to strategic planning and work plans by the Program Development Branch is a key part of Sask Water's corporate-wide program and project focus.

In addition to Program Development the Legal and Engineering branches were also established. Each of these branches reports directly to the President.

Other changes were also made within divisions.

The Water Management Division, formerly called Resource Management, was reorganized to include an integrated water resource and environmental engineering focus. A key goal for this division is to identify and develop ways for increasing public involvement and consultation in comprehensive river basin planning.

The Finance and Administration Division assumed responsibility from the Operations Division for Sask Water's utility operations. This change allows Operations to concentrate on utility project development and construction while Finance and Administration deals with financing and water charges. The Water Utility Branch of Finance and Administration operates and maintains Sask Water's treatment and supply systems.

TO ENHANCE PEOPLE'S AWARENESS OF THE VALUE OF WATER AND TO ENSURE EFFECTIVE/EFFICIENT USE OF WATER

A key component of effective water management and water use is an informed public. This process of public education is an ongoing one.

In 1991 Sask Water had the opportunity to participate as a major sponsor of Waterscapes '91 held in Saskatoon. This international symposium on water management helped increase public awareness of how important water is. It also helped participants learn how we can make the best and most efficient use of it.

Public outdoor education and extension events at Waterscapes featured productions by school children, displays, demonstrations and entertainment. These activities covered the broad spectrum of water use. The setting for these activities, the shores of the South Saskatchewan River, also demonstrated how water-related locations are ideal for community and educational events.

Sask Water staff also led, presented papers at and attended seminars and lectures dealing with key issues and concerns facing water managers, educators, agriculture and industry throughout the world. A key topic for delegates was multi-purpose sustainable development and environmental review.

The Waterscapes exposition demonstrated the latest in water use technology both for home, agriculture, business and industry. The exposition also featured education extension and workshops covering a wide range of topics such as new crop varieties for irrigation, effective yard and garden irrigation systems and how multi-use projects can make the best use of both fresh water and recycled water.

Sask Water participated in the exposition with a water conservation display, assisted by the Waterscapes mascot, Water Smartie, with seminar presentations and with an outdoor groundwater drilling and information trailer.

In many parts of Saskatchewan water supply is highly variable. As a result, Sask Water staff continued to work closely with both individuals and communities on how to best use and conserve available water resources. An important initiative for Sask Water in 1991 was a survey of rural and urban

municipalities undertaken by the corporation's six regional offices. The survey was aimed at determining water supply needs, concerns and water and wastewater rates. The survey will help Sask Water identify and examine utility opportunities with local governments.

Sask Water is helping communities develop water conservation and water use awareness programs. For example, staff worked closely with the City of Estevan and its citizens' committee to organize and promote a water conservation program.

TO INCLUDE PUBLIC PARTICIPATION IN MANAGEMENT OF WATER RESOURCES

One of the most important, and at times most difficult, aspects of water management is public consultation and public involvement. Sask Water's regional advisory board system provides the corporation with the means to obtain public input quickly; however, in many cases larger involvement is called for. Staff from head office and regional offices are frequently involved with public consultation. For example, public meetings were held in the southwest regarding the proposed construction of a reservoir on Battle Creek and in the northwest regarding lake level management. These discussions have included public input on a water management plan for the reservoirs and the area they serve.

In addition, following a federal/provincial announcement on water-based economic development, Sask Water management and staff met with over 100 water users from Saskatoon and area. The purpose of this meeting was to receive input and suggestions relating to potential water management and development projects in west central Saskatchewan.

One of the most comprehensive public involvement programs undertaken by Sask Water was with the South Saskatchewan River Basin Study, 1986-1991, jointly chaired by Environment Canada.

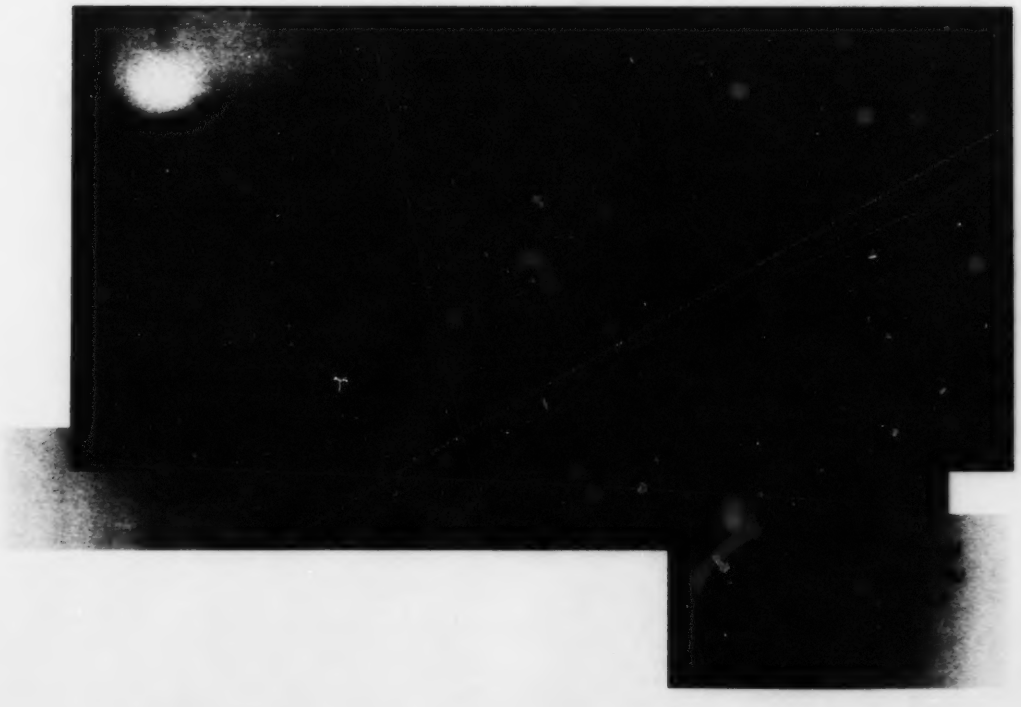
This major river basin study was especially significant for Saskatchewan since 40% of the province's population depends on water from the basin for their daily needs. It is also a critical water supply for recreation, tourism, fish, wildlife, agriculture, hydro-power and industry.

As a result it was essential to receive ongoing and extensive public involvement and consultation on the key areas of water quantity, water quality, water use and the environment. This input was obtained through scheduled public meetings, surveys, media briefings, a regular newsletter and special meetings and consultations.

As a result of public input consultants and staff were able to achieve the three main objectives for the study. The first was to accurately document current and emerging water management issues in the basin. The second was to obtain a full assessment of the water and water related resources of the basin. The third was to develop a workable framework plan for the future management of the water resources of the basin. The study's final framework plan and recommendations reflect to a large degree the comments received from people and organizations. They also demonstrate the interest in water and concern for the wise, sustainable use of the water and related land resources of the South Saskatchewan River Basin. The public's valuable input, ongoing interest and involvement will continue to help guide water management decisions in the basin in the best interests of all water users.

Public involvement and consultation formed a very important part of the Study and other planning activities undertaken by Sask Water in 1991. This kind of continuing involvement and interest by the public, in partnership with water managers and water users, will help our province protect the quantity and quality of our valuable surface and groundwater water resources. It will also provide us with the means and solutions needed to deliver reliable, quality water in the quantity needed to meet our social, environmental and economic needs.

It is, "Our water...our future."



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

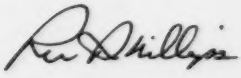
Management has prepared the financial statements of the corporation in accordance with generally accepted accounting principles applied on a consistent basis. The financial data included elsewhere in this report is consistent with the financial statements and the underlying information from which the corporation prepared these financial statements.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfil this responsibility, the corporation maintains appropriate systems of internal controls, policies and procedures. These systems provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the corporation.

Peat Marwick Thorne, the corporation's external auditors, have examined the December 31, 1991 financial statements and their report follows.

The Board of Directors of Sask Water has examined and approved the statements.

On behalf of the corporation,



Wayne Phillips
Vice-President, Finance and Administration

AUDITORS' REPORT

TO THE MEMBERS OF THE LEGISLATIVE ASSEMBLY
PROVINCE OF SASKATCHEWAN

We have audited the statement of financial position of Saskatchewan Water Corporation as at December 31, 1991 and the statements of operations and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Saskatchewan Water Corporation as at December 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peat Marwick Thorne

Peat Marwick Thorne
Chartered Accountants
Regina, Canada

February 25, 1992

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 1991

(with comparative figures for 1990)

	1991	1990
	(Thousands of Dollars)	
ASSETS		
CURRENT ASSETS		
Cash and short-term investments	$ 15,710	$ 9,526
Accounts receivable	5,869	5,443
Current portion of long-term accounts receivable (note 4)	42	16,936
Prepaid expenses and supplies	184	206
	21,805	32,111
LONG-TERM ACCOUNTS RECEIVABLE (note 4)	962	886
FIXED ASSETS (notes 3 & 5)	23,768	145,264
	$ 46,535	$178,261
LIABILITIES AND PROVINCE'S EQUITY		
CURRENT LIABILITIES		
Notes payable (notes 3 & 6)	$ —	$104,232
Accounts payable and accrued liabilities	15,202	7,186
Current portion of long-term debt (notes 3 & 10)	—	1,657
Deferred grant revenue (notes 3 & 7)	11,077	22,162
	26,279	135,237
DEFERRED CAPITAL ASSISTANCE (notes 3 & 8)	2,819	8,721
DEFERRED REVENUE AND PREPAYMENTS (note 9)	4,431	3,620
LONG-TERM DEBT (notes 3 & 10)	767	19,260
	34,296	166,838
PROVINCE'S EQUITY		
Equity advance (note 11)	700	700
Contributed surplus	933	933
Retained earnings	10,606	9,790
	12,239	11,423
Commitments and contingencies (notes 14 & 15)		
	$ 46,535	$178,261

See accompanying notes to financial statements

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1991

(with comparative figures for 1990)

	1991	1990
	(Thousands of Dollars)	
REVENUE (note 17)		
Water	$ 14,409	$ 13,686
Interest	2,122	2,965
Other	579	529
Amortization of deferred capital assistance	511	511
	17,621	17,691
EXPENSES (note 17)		
Operations	9,543	8,462
Water Management	4,431	3,987
Depreciation	2,945	1,857
Interest (note 13)	3,984	2,120
	20,903	16,426
EARNINGS (LOSS) FROM OPERATIONS	(3,282)	1,265
GRANTS FROM PROVINCE OF SASKATCHEWAN (note 7)	13,331	12,567
GRANTS TO CLIENTS (note 12)	9,233	13,205
PUBLIC POLICY EXPENDITURE ADJUSTMENTS (note 3)	—	—
NET EARNINGS	816	627
RETAINED EARNINGS, BEGINNING OF YEAR	9,790	9,163
RETAINED EARNINGS, END OF YEAR	$ 10,606	$ 9,790

See accompanying notes to financial statements

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1991

(with comparative figures for 1990)

	1991	1990
	(Thousands of Dollars)	
CASH PROVIDED BY (USED IN)		
Operating activities		
Net earnings	$ 816	$ 627
Charges and credits not affecting cash		
Depreciation	2,945	1,857
Amortization	(937)	(823)
Sinking fund earnings	(268)	(133)
Other	—	(33)
Public policy expenditure adjustment (note 3)	(17,592)	—
Net changes in non-cash and other items relating to operations		
Long-term receivable	16,818	12,374
Deferred grant revenue	2,683	3,851
Deferred capital assistance	(1,567)	238
Revenue prepayments	1,238	473
Other	7,612	(7,343)
Cash provided by operations	11,748	11,088
Investment activities		
Capital expenditures	(90,235)	(47,054)
Charges and credits not affecting cash		
Public policy expenditure adjustment (note 3)	197,049	—
Cash provided by (used in) investment activities	106,814	(47,054)
Financing activities		
Net proceeds from notes payable	46,738	30,260
Proceeds from long-term debt	9,863	—
U.S. contributions held for future expenditures	11,749	—
Repayment of long-term debt	(1,657)	—
Sinking fund instalments	(437)	(391)
Sinking fund maturities	823	—
Charges and credits not affecting cash		
Public policy expenditure adjustment (note 3)	(179,457)	—
Cash provided by (used in) financing activities	(112,378)	29,869
INCREASE (DECREASE) IN CASH POSITION	6,184	(6,097)
CASH POSITION, BEGINNING OF YEAR	9,526	15,623
CASH POSITION, END OF YEAR	$ 15,710	$ 9,526
Consists of:		
Cash and short-term investments	$ 15,710	$ 9,526

See accompanying notes to financial statements

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1991

1. STATUS OF THE CORPORATION

The Saskatchewan Water Corporation (Sask Water) was established on July 1, 1984, under the authority of **The Water Corporation Act.**

Sask Water has been designated by Order-in-Council as a corporation to which the provisions of Part II of **The Crown Corporations Act**, 1978 apply. Accordingly the financial results of the corporation are included in the consolidated financial statements of the Crown Management Board of Saskatchewan. Since Sask Water is a provincial crown corporation, it is not subject to Federal or Provincial income tax, but is subject to Provincial corporate capital tax.

In accordance with the provisions of the Act, the corporation's general powers and purposes are to manage, control, develop and administer the use of all water resources in the Province of Saskatchewan in an economic and efficient manner, and to own and operate water-related works. In addition, the corporation may provide financial assistance to various persons, communities and organizations to carry out its general powers and purposes.

The corporation's activities are also governed by agreements with the Province of Saskatchewan. The agreements provide, among other things, for the corporation to receive revenue from the Province of Saskatchewan to the extent the estimated costs of non-utility operations are not recoverable from estimated non-utility revenue. In addition and subject to legislative appropriations, amounts are received to finance the acquisition of fixed assets and the payment of grants to clients. As a result, the corporation is economically dependent on the Province of Saskatchewan for the funds it receives through these arrangements.

2. SIGNIFICANT ACCOUNTING POLICIES

Capitalization of Expenses

Internally provided engineering and technical services are capitalized at standard labour rates designed to recover salaries, benefits and overhead. The objective of this policy is to recognize the approximate value of design, supervision and administrative services rendered by corporation employees on construction projects. As well, the corporation capitalizes interest expense on debt relating to specific construction projects until they are substantially completed.

Deferred Capital Assistance

Amounts provided by the Province of Saskatchewan to finance the acquisition of fixed assets are recorded as deferred capital assistance when received, and are amortized into income on the same basis and over the same period as the related fixed assets are depreciated. (see note 8)

Deferred Revenue and Prepayments

Revenue prepayments represent revenue received from certain customers at the commencement of supply. These prepayments, which relate to the utility operation, are amortized into utility water revenue at 5% per annum on a straight-line basis or are matched against annual expenses. (see note 9)

Depreciation

Depreciation is calculated at the following annual rates designed to amortize the recorded cost over the estimated useful lives of the fixed assets. Included with buildings is a 20-year prepaid lease on office space. The prepayment is amortized over the term of the lease on a straight-line basis.

Assets	Method	Rate
Buildings	straight-line	2 1/2% to 5%
Water facilities	straight-line	2% to 10%
Maintenance and Office Equipment	diminishing balance or straight-line, as appropriate	10% to 30%

Grants from the Province of Saskatchewan

Under the authority of Section 21 of **The Water Corporation Act**, the corporation receives grants from the Consolidated Fund of the province out of monies appropriated by the legislature. These grants are recorded as revenue to fund grants paid out by the corporation and to cover any losses from non-utility operations during the current year. (see note 7)

Grants to Clients

Grants for a variety of programs are recorded as an expense if the final approval for the grant payment was made during the year. Where the corporation enters into contractual agreements for project construction under various assistance programs, expenditures are accounted for on an accrual basis. (see note 12)

Investments

Investments maturing within one year are included with current assets and are valued at cost. This valuation approximates their quoted market value.

Fixed Assets

Purchases of fixed assets are recorded at cost to the extent that these costs are recoverable from future operations or have been funded by grants recorded as deferred capital assistance. Assets under construction are capitalized at cost, and are transferred to the appropriate asset category when construction is complete and the asset is in use. (see note 5)

Segmented Information

Revenue and expenses directly attributable to each segment of the corporation's activities are reflected in the results of operation of each segment together with an allocation of general administrative expenses on the basis of the number of employees directly employed by each segment. (see note 17)

3. PUBLIC POLICY EXPENDITURES

Souris Basin Development (Thousands of Dollars)

The corporation entered into an agency agreement in 1985 with the Souris Basin Development Authority (SBDA), a provincial crown corporation, whereby the SBDA would plan, organize, design and construct the Rafferty and Alameda dams on behalf of the corporation. The dams were to be funded by contributions from Saskatchewan Power Corporation, the United States Government and by a funding arrangement whereby operating agreements with various users would be entered into to generate sufficient cash flows to justify the capitalization of the dams. During 1991, it became apparent that the funding arrangement contemplated with the various users would not be consummated.

The construction costs incurred and contributions received to December 31, 1991 and the estimated total cost for the project and related funding are as follows:

	December 31, 1991	Estimate to Complete	Total
Construction costs	$178,188	$35,112	$213,300
Funded by:			
Province of Saskatchewan	$141,449	$(3,949)	$137,500
U.S. Government	36,739	18,261	55,000
Saskatchewan Power Corporation	—	20,800	20,800
	$178,188	$35,112	$213,300

It has been determined that the construction costs of $141,449 funded by the Government of Saskatchewan to December 31, 1991 represents a public policy expenditure. The corporation has received notice of intention from the Government of Saskatchewan to forgive the notes payable received by the corporation from the Department of Finance to fund these public policy expenditures, subject to a legislative amendment to the Financial Administration Act. As these notes were issued to fund the Souris Basin Development project, which is managed by the corporation, the effect of this forgiveness has been to reduce the cost of the related assets under construction by $141,266.

Irrigation Projects (Thousands of Dollars)

The corporation has incurred construction costs of $55,600 relating to major irrigation projects. It has been determined that these costs represent a public policy expenditure. The corporation has received notice of intention from the Government of Saskatchewan to forgive the long-term debt payable and notes payable received by the corporation from the Department of Finance and Crown Management Board to fund these public policy expenditures, subject to a legislative amendment to the Financial Administration Act. As the long-term debt and notes payable were issued to fund the irrigation projects, which are managed by the corporation, the effect of this forgiveness has been to reduce the cost of the related assets under construction by $38,191.

Financial Statement Impact (Thousands of Dollars)

The aggregate income affect to the corporation of the public policy expenditures decision is nil, as a result of the following:

Expenditures on assets under construction	$197,049
Reduction of assets under construction on forgiveness of debt	(179,457)
Deferred accounts adjustments	(17,592)
	$ —

As a result of the public policy expenditure decision, the balance sheet adjustments to fixed assets, debt and the corporation's deferred accounts are as follows:

	Souris Basin Development	Irrigation Projects	Total
Fixed assets	$141,449	$55,600	$197,049
Debt			
Notes payable	$141,266	$ 9,704	$150,970
Long-term debt	—	30,000	30,000
Discount on long-term debt	—	(125)	(125)
Equity in sinking fund	—	(1,388)	(1,388)
	141,266	38,191	179,457
Deferred Accounts			
Deferred capital assistance	332	3,492	3,824
Deferred grant revenue	(149)	13,917	13,768
	183	17,409	17,592
Total debt and deferred accounts	$141,449	$55,600	$197,049

4. LONG-TERM ACCOUNTS RECEIVABLE

In 1990, Sask Water entered into a 20 year lease agreement with the City of Moose Jaw for the use of a geothermal well. This transaction is accounted for as a sales-type lease and as such, income is recognized over the lease term.

In 1990, the current portion of long-term accounts receivable included $16,918,540 due from Agriculture Canada in accordance with the Canada-Saskatchewan Subsidiary Agreement on Irrigation Based Economic Development.

5. FIXED ASSETS (note 3)

	1991			1990
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
	(Thousands of Dollars)			
Land	$ 2,740	$ —	$ 2,740	$ 3,004
Buildings	1,363	427	936	975
Water facilities	22,012	7,849	14,163	35,384
Maintenance equipment	1,864	1,428	436	527
Office equipment	2,139	1,356	783	895
Assets under construction	4,710	—	4,710	104,479
	$34,828	$11,060	$23,768	$145,264

6. NOTES PAYABLE (note 3)

		1991	1990
		(Thousands of Dollars)	
Province of Saskatchewan			
Due Date	Interest Rate		
January 9, 1991	11.48%	$ —	$ 9,835
March 28, 1991	11.48%	—	76,397
December 31, 1991	non-interest bearing	—	18,000
		$ —	$104,232

7. DEFERRED GRANT REVENUE (note 3)

	1991	1990
	(Thousands of Dollars)	
Balance, beginning of year	$22,162	$18,311
Grants received	14,019	16,268
Recorded as grant revenue	(13,331)	(12,567)
Allocated from deferred capital assistance	1,995	150
Public policy expenditure adjustment of irrigation projects and sinking fund	(13,768)	—
Balance, end of year	$11,077	$22,162

8. DEFERRED CAPITAL ASSISTANCE (note 3)

	1991	1990
	(Thousands of Dollars)	
Balance, beginning of year	$ 8,721	$ 8,995
Grants received	428	387
Amortization	(511)	(511)
Allocated to deferred grant revenue	(1,995)	(150)
Public policy expenditure adjustment	(3,824)	—
Balance, end of year	$ 2,819	$ 8,721

9. DEFERRED REVENUE AND PREPAYMENTS

	1991	1990
	(Thousands of Dollars)	
Balance, beginning of year	$ 3,620	$ 3,459
Contributions received	1,238	1,373
Amortization	(427)	(312)
Transferred to assets under construction	—	(900)
Balance, end of year	$ 4,431	$ 3,620

10. LONG-TERM DEBT (note 3)

Year Received	Year Payable	Interest Rate	1991 Debt Recorded	1990 Debt Recorded
			(Thousands of Dollars)	
1971	1991	6.930%	$ —	$ 657
1977	1997	8.880%	1,030	1,030
1987	1991	9.000%	—	1,000
1989	2009	10.010%	—	20,000
			1,030	22,687
Less Current portion of long-term debt			—	1,657
Equity in sinking funds			263	1,770
			$ 767	$19,260

The loan is due to the Province of Saskatchewan.

11. EQUITY ADVANCE

The equity advance was received from Crown Management Board and is intended as long-term equity capitalization for the corporation. This advance is non-interest bearing and is repayable at the discretion of Crown Management Board.

12. GRANTS TO CLIENTS

Included in expenses are grants (or assistance) provided to various persons, communities and organizations to carry out a variety of programs administered by the corporation. In addition, where the condition of financial assistance for certain programs requires the corporation to provide engineering or technical services, an allocation of salaries to grant expense is made. Particulars of these grants, including salary allocation of $3,467,725 (1990 - $3,850,459), by program, are as follows:

	1991	1990
	(Thousands of Dollars)	
Drought (wells)	$ 421	$ 1,735
Irrigation Development	4,867	4,970
Municipal Water and Sewage	690	3,157
Flood Control and Drainage	2,504	2,442
Individual Irrigation		
— Agricultural Development	751	901
	$ 9,233	$13,205

13. INTEREST EXPENSE

	1991	1990
	(Thousands of Dollars)	
Total interest expense	$13,013	$ 8,512
Sinking fund earnings	(268)	(133)
Interest capitalized	(8,761)	(6,259)
Interest expense	$ 3,984	$ 2,120

14. COMMITMENTS AND CONTINGENCIES

As of December 31, 1991, the corporation has outstanding commitments of $3,552,745 (1990 - $6,706,279) for construction contracts and consulting agreements primarily relating to grant assistance.

As of December 31, 1991, the corporation is the defendant to several unresolved statements of claim. The corporation has provided in the accounts for these claims in accordance with the advice received from legal counsel. The corporation intends to account for any differences which may arise, between amounts provided and amounts expended, in the period in which the claims are resolved.

15. LEASES

The corporation has entered into operating lease agreements with the following minimum lease payments:

	(Thousands of Dollars)
1992	$ 918
1993	912
1994	905
1995	787
1996	719
1997 and subsequent	2,823
	$7,064

16. RELATED PARTY TRANSACTIONS

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan crown controlled departments, agencies and corporations with which the corporation is related. Account balances resulting from these transactions are included in the statement of financial position and are settled on normal trade terms.

Other amounts due to and from related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

17. SEGMENTED INFORMATION

Statement of Operations

	1991			1990		
	Non-Utility	Utility	Total	Non-Utility	Utility	Total
	(Thousands of Dollars)					
REVENUE						
Water	$ 9,829	$4,580	$14,409	$ 9,412	$4,274	$13,686
Interest	2,114	8	2,122	2,962	3	2,965
Other	290	289	579	236	293	529
Amortization of deferred capital assistance	511	—	511	511	—	511
	12,744	4,877	17,621	13,121	4,570	17,691
EXPENSES						
Operations	6,367	3,176	9,543	5,447	3,015	8,462
Water Management	4,431	—	4,431	3,987	—	3,987
Depreciation	498	2,447	2,945	491	1,366	1,857
Interest	41	3,943	3,984	26	2,094	2,120
	11,337	9,566	20,903	9,951	6,475	16,426
EARNINGS (LOSS) FROM OPERATIONS	1,407	(4,689)	(3,282)	3,170	(1,905)	1,265
GRANTS FROM PROVINCE OF SASKATCHEWAN	7,826	5,505	13,331	10,035	2,532	12,567
GRANTS TO CLIENTS	9,233	—	9,233	13,205	—	13,205
PUBLIC POLICY EXPENDITURE ADJUSTMENTS	—	—	—	—	—	—
NET EARNINGS	$ —	$ 816	$ 816	$ —	$ 627	$ 627

SASK WATER AN OVERVIEW

MANDATE

Sask Water is a provincial crown corporation established by **The Water Corporation Act**, July, 1984. It is responsible for the management, administration, development, protection and control of Saskatchewan's water and related resources.

Sask Water employs approximately 220 people. Its head office is located in Moose Jaw. It also operates six regional offices in Moose Jaw (with a subregional office in Melville), Swift Current, Outlook, North Battleford, Nipawin and Weyburn and two branch offices in Prince Albert and Watrous. The corporation has four main divisions: Finance and Administration (accounting, payroll, utility administration), Water Management (resource management, planning and hydrology), Operations (regional offices) and Corporate Affairs (human resources and communications). It also has three branches: Legal, Engineering, and Program Development.

In 1991 Sask Water had revenues of $17.6 million with net earnings of $816,000. The corporation's sources of income are from water charges for power generation, industrial, municipal and individual clients, and grants from the Province of Saskatchewan.

The corporation has a board of directors and regional advisory boards for each of its six regional offices. The Minister Responsible for Sask Water is the Honourable Darrel Cunningham.

Sask Water offers a broad range of services and assistance programs relating to water resource management, supply and treatment, development, agriculture and irrigation. It also operates a water supply utility with municipal, industrial and individual customers.

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Facsimile (306)694-3944

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North Battleford, Saskatchewan
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Facsimile (306)446-7461

West Central Region
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Outlook, Saskatchewan
SOL 2NO
Inquiry (306)867-9931
Facsimile (306)867-9868

Southwest Region
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Northeast Region
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McIntosh Mall
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